

March 27, 2003

Mr. Dennis Smith
Director, Center for Medicaid & State Operations
Centers for Medicare & Medicaid Services
7500 Security Blvd.
Baltimore, MD 21244

Dear Mr. Smith:

We are providing the revised budget neutrality projections that reflect the modifications in the waiver requested in our March 12, 2003 letter (attached) to Dennis Smith. It should be noted that only Item B, "Include the SCHIP Allotment", will increase the overall 5 year Budget Neutrality Cap in the approved TennCare II waiver. We believe that the inclusion of the SCHIP Allotment provides equitable treatment to Tennessee as TennCare has historically covered and continues to serve the SCHIP eligible population. Tennessee should not be deprived of the ability to utilize the additional level of funds included in Title XXI, which was passed five years after the development of the TennCare waiver. Tennessee is not asking to receive the enhanced SCHIP match available to that population.

Item A, which requests that the Stabilization Neutrality Cap included in ST&C 27 be removed, will not increase budget neutrality. This change will, however enable Tennessee to effectively manage costs without the effects of the additional artificial cap on MCO costs contained within the overall Budget Neutrality Cap. Actual data experienced since the approval of the waiver demonstrates that stabilization has not increased the level at which the MCOs had been spending leading up to the stabilization period.

The modification requested as Item C again does not increase budget neutrality. It will only enable Tennessee to utilize the increased limit of 175% of uncompensated care for public hospital DSH made available to all other states for Federal fiscal years 2004 and 2005. In accordance with the waiver provisions, we request that TennCare be allowed to

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claim these funds as CPE, the mechanism historically used by TN to recover the cost of uncompensated care in hospitals.

The remaining two requested modifications, "Remove premium-match phase out provision" and "Remove IMD waiver phase-out provision", also do not increase the

overall Budget Neutrality Cap. Tennessee, however, is requesting that these two TennCare II provisions, which phase out elements included in the original waiver, be removed. These provisions will have a significant detrimental effect on Tennessee's ability to meet its obligations under the waiver.

The attached schedule, which amends the original Budget Neutrality Cap, indicates that the waiver will remain budget neutral. We utilized the original Cap to assure a consistent presentation of the data; however, as you are aware the projected changes discussed by Governor Bredesen will produce additional savings. The projected savings from the implementation of a Single Statewide Preferred Drug List alone amounts to \$150 million. We are also enclosing a revised TennCare projection reflecting current enrollment and expenditure data.

If you have any questions, please feel free to call me at 615-741-0213.

Sincerely,

Manny Martins
Deputy Commissioner

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Enclosures